

AR26

1974 ANNUAL REPORT

The logo for Stuart House, featuring the name in a red serif font inside a white oval, which is set against a red, stylized background element that resembles a wing or a stylized 'S' shape.

Stuart House

STUART HOUSE INTERNATIONAL LIMITED

To Our Shareholders:

Further to my letter of May 28th, 1974 forming part of the Company's Annual Report, I am now pleased to bring to your attention the purchase by your chief executive officers of 200,000 common shares of the Company from Stuart (Nassau) Limited which was completed on June 27, 1974; at the same time the executive group acquired voting rights to a further 50,000 common shares owned by Stuart (Nassau) Limited so that the group has obtained control of 40.2% of all issued shares with full voting rights.

At this time I would also like to amplify information contained in my letter of May 28th. The Burlington Cannery property has been sublet and possession given over to its present owners and there are no further commitments in the new financial year under the long-term lease. However, the Company had originally guaranteed payment of a mortgage on this property, and the guarantee is still outstanding. Secondly, the long-term liabilities on the balance sheet show that there is now nothing owing under a Special Credit Agreement, and this is correct. When the Special Credit Agreement was originally made however, the Company gave a debenture in favour of the supplier granting the credit, which the supplier continues to hold as collateral security for his regular merchandise account. This account is being paid on a current basis in accordance with the supplier's usual credit terms.

J. L. STUART,
President.

STUART HOUSE INTERNATIONAL LIMITED

DIRECTORS

John Stuart	Executive
John Lyon Stuart	Executive
Howard Maitman	Executive
Bill Harding	Executive
Charlie Hoy	Executive
Pierce G. Thornley	Executive

CHIEF EXECUTIVE OFFICERS

Chairman	John Stuart
President	John Lyon Stuart
Vice-President — Sales Eastern Canada	Bill Harding
Vice-President — Sales Western Canada	Charlie Hoy
Vice-President — Finance	Howard Maitman
Secretary	Tyrus Ebata

AUDITORS

Resnick, Wintraub & Co.	Toronto, Ontario
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BANKERS

The Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Toronto and Calgary

SUBSIDIARY COMPANIES

Stuart House Canada Limited	Weston, Ontario
Bradford-Penn Oil Limited	Toronto, Ontario
Stuart House Products Limited	Toronto, Ontario
Stuart House Products Inc.	Fort Myers, Florida
Burlington Packaging Limited	Burlington, Ontario
Romar Pet Supplies Limited	Willowdale, Ontario

PRESIDENT'S LETTER

TO OUR SHAREHOLDERS:

This Annual Report for the year ended February 28th, 1974 sums up the year's operations in financial terms, so I will try to outline how your management team achieved those results and what we are doing in the current year. During the year we concentrated our efforts on two problem areas:

1. Elimination and sale of our money-losing divisions.
2. The reduction of short-term indebtedness through a company-wide inventory control program.

At the same time we were concentrating our marketing efforts on the more profitable divisions and you will note that, in spite of the fact that we lopped off over \$500,000 in sales of the discontinued product lines, Consolidated Sales increased from \$12,244,424 to \$13,066,534 this year. Sales of the Food Division alone, increased by 17% from \$9,031,369 to \$10,598,256.

The results of our efforts in all three areas are reflected in the Consolidated Statement of Operations where you will see that our net profit for this year was \$125,254 or 20.1¢ per share, as compared with an operating loss of \$67,176 or 11.2¢ per share last year.

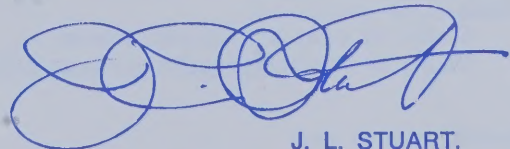
In line with our objectives for the unprofitable divisions, we completed the sale of our Oil and Antifreeze Division and shut down the Canning Operations of Burlington Packaging Limited. Furthermore, in considering our prospects for the future, you should remember that these transactions were not completed until late in the year and in fact, while the loss was greatly reduced from the previous year, these two divisions were a continuing drain on consolidated profits for much of the year. Our last obligation, the long-term lease of the Burlington Cannery, has now been fully discharged and therefore, there are no further commitments on behalf of either the Antifreeze Division or Burlington Packaging in the new financial year.

The results of our efforts to reduce indebtedness are shown on the Balance Sheet where you will see that the total of Bank Loan and Bank Overdraft was reduced by nearly \$1,000,000 from \$1,618,743 in 1973 to \$632,435 in 1974. This was largely accomplished by reducing inventories by \$867,335 and the disposal of fixed assets in the discontinued operations for \$121,345.

While we are now getting close to the objectives set in early 1973, we will continue to work in the two problem areas and we are presently negotiating the sale of assets making up our plastics and leather division. As a matter of fact, this division is now operating on a profitable basis but, in line with our decision to concentrate on the food business, and because of the cost of financing the somewhat seasonal nature of this school oriented business, we have concluded that it would be in the company's best interest to sell it. Based on our present cash flow projections we would then expect further decreases in our bank loans by the end of the new year.

We will also continue our aggressive marketing programmes in the Food and Pet Supply Divisions. We have projected excellent growth in both of these areas in the coming year and while we are hampered by raw material shortages, notably in aluminum foil and plastic products, total sales for these two divisions in the first two months of the new year are right on budget.

Finally, I want to report on something that is not shown in the financial statements, it is the tireless efforts of our employees and the great support of the companies which we represent as sales agents. The past year was not an easy one and I want to express my deepest appreciation and thanks to these important people and companies.



J. L. STUART,
President.

May 28th, 1974.

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED FEBRUARY 28, 1974

(with comparative figures for 1973)

	1974	1973
Sales:		
Warehouse sales	\$ 9,125,320	\$ 9,017,203
Commission sales	3,941,214	3,227,221
	<u>\$13,066,534</u>	<u>\$12,244,424</u>
Gross margin on warehouse sales (after depreciation of \$41,008 in 1974 and \$44,093 in 1973)	2,481,835	1,953,462
Commission income	305,437	197,070
	<u>2,787,272</u>	<u>2,150,532</u>
Selling and administrative expenses	2,662,361	2,220,006
	124,911	(69,474)
Minority interest share of a subsidiary's loss	343	2,298
Profit (loss) before extraordinary items	125,254	(67,176)
Extraordinary items	—	361,563
Net profit (loss) for the year	<u>\$ 125,254</u>	<u>\$ (428,739)</u>
Earnings (loss) per share:		
Before extraordinary items	20.1¢	(11.2)¢
Extraordinary items	—	(58.6)
Net profit (loss) for the year	<u>20.1¢</u>	<u>(69.8)¢</u>

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED FEBRUARY 28, 1974

(with comparative figures for 1973)

	1974	1973
Deficit, beginning of year		
As previously reported	\$ 676,219	\$ 252,358
Prior period adjustment (note 10)	18,677	18,677
As restated	694,896	271,035
Net profit (loss) for the year	125,254	(428,739)
	<u>569,642</u>	<u>699,774</u>
Other		
Dividends paid on preferred shares	1,474	1,500
Equity in capital transactions of subsidiary	—	(6,378)
	<u>1,474</u>	<u>(4,878)</u>
Deficit, end of year	<u>\$ 571,116</u>	<u>\$ 694,896</u>

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENT OF SOURCE & APPLICATION OF FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 1974
(with comparative figures for 1973)

	1974	1973
Source of funds:		
Net profit (loss) for the year	\$ 125,254	\$ (428,739)
Add (deduct) —		
Depreciation	41,008	68,000
Deferred income taxes reversed	—	99,000
Goodwill written off	—	174,119
Other	—	(7,383)
Total funds provided (used) by operations	166,262	(95,003)
Disposal of fixed assets	121,345	—
Proceeds from issue of debenture	—	475,000
Repayment of mortgages receivable	—	82,805
Sales of shares under stock option and purchase plans (note 6)	1,335	19,310
Other	3,797	1,375
Total funds provided	293,139	483,487
Application of funds:		
Non resident tax liability (note 10)	—	18,677
Purchase of fixed assets	—	141,300
Reductions under special credit agreement	91,052	202,693
Excess of cost of shares of subsidiary acquired during year over net book value of assets	(25,000)	245,838
Increase in cash surrender value of life insurance	3,710	7,323
Dividends paid on preferred shares	1,474	1,500
Note receivable	6,262	—
Other	346	1,831
Total funds applied	77,844	619,162
	215,295	(135,675)
Working capital, beginning of year	329,349	465,024
Working capital, end of year	\$ 544,644	\$ 329,349

(See accompanying notes to consolidated financial statements)

STUART HOUSE INT

(Incorporated under

CONSOLIDATED BALANCE

(with comparative figures)

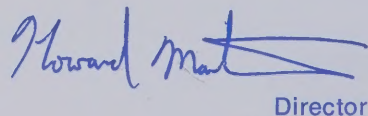
ASSETS

	1974	1973
Current assets:		
Accounts receivable (note 4)	\$ 726,565	\$ 848,750
Inventories, at lower of cost or net realizable value	1,383,197	2,250,532
Current portion of note receivable	29,835	—
Prepaid expenses	29,551	32,765
	<u>2,169,148</u>	<u>3,132,047</u>
Investments:		
Shares, at cost	1,296	1,296
Note receivable, less current portion	6,262	—
Cash surrender value of life insurance (note 11)	24,990	21,280
	<u>32,548</u>	<u>22,576</u>
Fixed assets:		
Land, building, machinery and equipment (note 2)	<u>173,189</u>	<u>335,939</u>
Other assets:		
Stock issue expense, at cost	17,500	17,500
Unamortized debenture discount (note 5)	22,084	24,584
Excess of cost of investments in subsidiaries over net book value at acquisition	315,716	340,716
Other	535	1,832
	<u>355,835</u>	<u>384,632</u>
	<u><u>\$2,730,720</u></u>	<u><u>\$3,875,194</u></u>

Approved on behalf of the Board:



Director



Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Stuart House International Limited as at February 28, 1974 and the consolidated statements of operations, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly

INTERNATIONAL LIMITED

(In accordance with the laws of Canada)

SHEET FEBRUARY 28, 1974

(at February 28, 1973)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
Current liabilities:		
Bank overdraft (note 4)	\$ 132,435	\$ 328,743
Bank loan (note 4)	500,000	1,290,000
Accounts payable and accrued liabilities	992,069	1,183,955
	<u>1,624,504</u>	<u>2,802,698</u>
Long-term liabilities (note 5):		
9% debenture due 1982	500,000	500,000
Special credit agreement	—	91,052
	<u>500,000</u>	<u>591,052</u>
Minority interest in subsidiary	23,312	23,655
Shareholders' equity:		
Capital stock (note 6)		
Authorized:		
100,000 Preferred shares of \$8.00 par value each issuable in series		
1,000,000 Common shares without par value		
Issued:		
3,070 6% cumulative redeemable convertible preferred shares, Series A	24,560	24,560
621,610 Common shares (621,310 in 1973)	1,072,580	1,071,245
	<u>1,097,140</u>	<u>1,095,805</u>
Capital surplus	56,880	56,880
Deficit (note 10)	(571,116)	(694,896)
	<u>582,904</u>	<u>457,789</u>
	<u>\$2,730,720</u>	<u>\$3,875,194</u>

(See accompanying notes to consolidated financial statements)

the consolidated financial position of the companies as at February 28, 1974 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with the preceding year.

The consolidated financial statements for the preceding fiscal year were reported on by other auditors.

Resnick, Wintraub & Co.

Chartered Accountants,
Toronto, Ontario, May 16, 1974.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 1974

NOTE 1: SUBSIDIARY COMPANIES

The accompanying financial statements consolidated the accounts of the company and all of its subsidiaries:

	Ownership of Voting Stock
Stuart House Canada Limited	100.0%
Romar Pet Supplies Limited	100.0%
Stuart House Products Limited (non-operating)	100.0%
Stuart House Products Inc. (non-operating)	100.0%
Bradford-Penn Oil Limited (non-operating)	100.0%
Burlington Packaging Limited	92.3%

Subsequent to the year-end the company decided to sell the assets of one of its divisions. The book value of the net assets of this business at the year-end was \$267,400 and management expects that no loss will be incurred on this disposal. The results of operations of this division is as follows:

Total net sales	<u>\$1,420,023</u>
Gross margin on sales	<u>\$ 111,335</u>

Goodwill pertaining to the division referred to above which was to be disposed of after the year-end amounting to \$49,400 will be applied to offset gains of approximately the same amount realized on disposal of the net assets subsequent to the year-end.

NOTE 2: FIXED ASSETS

The major categories of fixed assets at February 28, 1974 are as follows:

	Cost	Accumulated Depreciation	Net book value	Rates
Buildings	\$ 32,817	\$ 27,125	\$ 5,692	5%
Machinery and equipment	797,488	687,016	110,472	20%
Vehicles	40,537	31,098	9,439	30%
Leasehold improvements	113,880	67,694	46,186	
	<u>984,722</u>	<u>812,933</u>	<u>171,788</u>	
Land	1,400	—	1,400	
	<u>\$ 986,122</u>	<u>\$ 812,933</u>	<u>\$ 173,189</u>	

Straight line depreciation is written on leasehold improvements over the terms of the leases, and the diminishing balance method is applied to the other depreciable assets at the rates shown above.

NOTE 3: INCOME TAXES

Certain of the subsidiary companies have incurred losses in the current and prior years which are available, for income tax purposes, as a deduction from future profits. At February 28, 1974 the potential future income tax reductions of these losses amounted to approximately \$92,000 of which \$5,400 arose as a result of the loss in a subsidiary for the current year.

Generally accepted accounting principles limit the recognition of deferred assets arising from loss carry-forwards to those situations where the benefits of the carry-forwards are "virtually certain" to be realized in future years. While in management's opinion the profitability of future operations will ensure recovery of the loss carry-forwards, they have not been recognized in the accounts for the year ending February 28, 1974.

NOTE 4: BANK LOANS

The accounts receivable and inventories have been specifically pledged as security for the bank borrowings; in addition a 7¾% floating charge debenture has been issued to the bank.

NOTE 5: LONG-TERM LIABILITIES

On December 20, 1972 the company issued a 9% \$500,000 convertible Series A floating charge debenture due December 20, 1982 for \$475,000 cash. The debenture pays interest half yearly on June 20, and December 20 and is convertible into common shares of the company at the rate of \$5 per share for the first five years and \$6 per share for the remaining five years. The debenture is secured by a floating charge on the assets and undertakings of the company and two of the subsidiaries, Stuart House Canada Limited and Burlington Packaging Limited. The debenture holder was also given warrants, exercisable to December 20, 1977, to subscribe for 100,000 common shares of the company at a price of \$5.50 per share to December 20, 1974 increasing annually thereafter by 50¢ to the expiry date.

NOTE 6: CAPITAL STOCK

The preferred shares Series A are redeemable at \$8.48 per share, and can be purchased for cancellation at a price not exceeding \$8.48. The preferred shares are convertible prior to May 1, 1974 into common shares on the basis of two common shares for each preferred share Series A.

Under the company's revised stock option plan dated November 16, 1970, 13,450 common shares have been reserved for issue under options granted from time to time to certain officers and senior employees of the company up to a maximum of 3,000 shares each. The optionee has a cumulative right to exercise his option as to 20% of the optioned shares in each year of continuous employment with the company from the date his option is granted; no option may have a term exceeding five years. At February 28, 1974 options were outstanding for the purchase of 12,000 common shares at an exercise price of \$2.55 which was 85% of the market price when the options were granted.

Under the company's employee stock purchase plan shares may be purchased in September each year in lots of ten at the current market price, and payment may be spread over three years. During the year 300 common shares were purchased under the plan for \$4.45 each.

The above changes in the issued capital may be summarized as follows:

Common shares:	Number of shares outstanding	Dollar value
Balance at February 28, 1973	621,310	\$1,071,245
Issued during the year:		
Under stock purchase plan	300	1,335
Balance at February 28, 1974	<u>621,610</u>	<u>\$1,072,580</u>

The following summarizes the common shares which have been reserved for various purposes:

(a) Warrants (note 5)	100,000
(b) Conversion of preferred shares	6,140
(c) Stock option plan	13,450
(d) Stock purchase plan	15,790
(e) Conversion of debentures (note 5)	<u>100,000</u>
	<u>235,380</u>

NOTE 7: LEASE AND OTHER COMMITMENTS

The company has signed an agreement with its parent, Stuart (Nassau) Limited, for the parent to provide it with consulting and advisory services for a term of ten years at a charge of \$30,000 per annum. This agreement expires February 28, 1982.

The company and its subsidiaries are committed to annual rentals under leases as follows: 1974-1977, \$98,448; 1978-1980, \$50,468; 1981-1991, \$32,968.

NOTE 8: DIRECTOR'S REMUNERATION

The aggregate remuneration (none of which was to the directors as such) charged to consolidated earnings for the year ended February 28, 1974 in respect of ten directors (five of whom were also officers) was \$145,591 all of which was paid by Stuart House Canada Limited.

NOTE 9: CONTINGENT LIABILITIES

The company guaranteed in a prior year, a mortgage liability of its parent, Stuart (Nassau) Limited. At February 28, 1974 the principal balance outstanding on the 5½% mortgage was approximately \$116,000. Management is satisfied that there is adequate security to cover the mortgage.

NOTE 10: RESTATEMENT OF DEFICIT

As a result of an assessment applicable to 1969, 1970 and 1971 for non-resident taxes, the balance of retained earnings at February 28, 1973 has been restated to show a retroactive charge of \$18,677 representing the cumulative amount by which non-resident taxes were payable for periods prior to March 1, 1973.

NOTE 11: CASH SURRENDER VALUE OF LIFE INSURANCE

Cash surrender value of life insurance is stated net of loans of \$120,389 (1973 — \$120,433).

In addition to the goods which we manufacture and sell under the Stuart House label, we are proud to represent the following companies as Sales Agents for their products in all or part of Canada.

Belvedair Candies Inc.,
Kamourosko, Quebec.

CONFECTIONERY

W. T. Hawkins Limited,
Belleville, Ontario.

CHEEZIES, MAGIC-POP POPPING CORN

LePage's Limited,
Toronto, Ontario.

GLUES AND ADHESIVES

Lewis-Howe Company Limited,
Windsor, Ontario.

TUMS AND NATURE'S REMEDY

Matlow Bros. Limited,
Swizzels Limited,
New Mills, England.

IMPORTED ENGLISH CONFECTIONERY

Plough (Canada) Limited,
Malton, Ontario.

COPPERTONE SUN TAN PRODUCTS,
ASPERGUM, ANSODENT, FEEN-A-MINT, ETC.

Polymer International (N.S.) Limited,
Truro, Nova Scotia.

PLASTIC GARBAGE BAGS

Ray-O-Vac Division,
ESB Canada Limited,
Winnipeg, Manitoba.

ELECTRIC STORAGE BATTERIES

Romar Pet Supplies Limited,
Weston, Ontario.

ROMAR 90 DOG & CAT FOOD

Solo Cup Canada (1960) Ltd.,
Montreal, Quebec.

PAPER & PLASTIC CUPS

